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FISCAL IMPACT STATEMENT

LS 6741	**NOTE PREPARED:** Jan 14, 2008
BILL NUMBER: HB 1327	**BILL AMENDED:**
SUBJECT: Property tax deductions.	
FIRST AUTHOR: Rep. VanDenburgh	**BILL STATUS:** As Introduced
FIRST SPONSOR:	
FUNDS AFFECTED: GENERAL X DEDICATED FEDERAL	**IMPACT:** State & Local

Summary of Legislation: This bill provides that beginning in 2008, the Department of Local Government Finance shall annually adjust the income and assessed value limitations in the property tax deduction for the elderly and the income limitation in the property tax deduction for blind and disabled persons to reflect the percentage increase in United States personal income (as computed by the federal Bureau of Economic Analysis) during the most recent calendar year for which data is available. It provides that in the case of an Indiana resident, the income limitation for these deductions is based on Indiana adjusted gross income.

Effective Date: January 1, 2008 (retroactive).

Explanation of State Expenditures: Beginning in 2008, the Department of Local Government Finance would have to adjust the income and assessed value limits each year to reflect any increase in the United States personal income as computed by the Bureau of Economic Analysis. This has to be done before February 15.

The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences. PTRC and homestead credits are paid from the Property Tax Replacement Fund.

The bill first becomes effective for taxes payable in CY 2009. In CY 2009 these payments cannot exceed $2,028.5 M (currently, no limit has been set for CY 2010). Under current law, if the cost of the credits exceeds this limit, PTRC rates for all taxpayers would be proportionately reduced to stay within this limit.

In CY 2009, projections indicate that the $2,028.5 spending limit would be exceeded. As a result, under this proposal, there would be no PTRC and Homestead credit savings in CY 2009. PTRC and Homestead payments for CY 2010 is indeterminable at this time as it would depend on the number of additional taxpayers who would become eligible under this provision.

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base would reduce the property tax revenue for these two funds. The revenue reduction is estimated at approximately $2,200 for increasing the blind/disabled income limit, and $2,700 for increasing the income and AV assessment limit for the aged deduction (senior citizens). The total revenue reduction would be approximately $4,900.

Explanation of Local Expenditures: As of November, 1, 2007, forty-nine counties provided additional Homestead credits that are paid with proceeds from a combination of county option taxes (COIT) and county economic development income taxes (CEDIT). Local Homestead credits in CY 2009 are expected to decrease by approximately $89,000 in CY 2009: $40,000 because of the increase in the income limits for blind/disabled taxpayers, $49,000 because of the increase in the income and AV assessment limit for senior citizens. COIT proceeds that are not used for county Homestead credits are distributed to civil taxing units as certified shares. CEDIT proceeds that are the result of the additional rate allowed for homestead credits may only be used for homestead credits.

Explanation of Local Revenues: For taxes payable after 2008, this bill increases the income and assessed value limits by the percentage increase in United States personal income during the most recent year for which data is available. These limits may not be decreased. The most current data from the Bureau of Economic Analysis data is for 2005 in which personal income increased by 5.2 percent over 2004.

Under current law, persons 65 or over (senior citizens) or their surviving spouses may receive an assessed value(AV) deduction on their real property or mobile home residence equal to one-half the assessed value of the property up to $12,480. In order to qualify, the assessed value of the property may not exceed $182,430 and the adjusted gross income of the taxpayer may not exceed $25,000. For taxes payable in CY 2009 this bill would increase the income limit from $25,000 to $26,300 and the AV assessment limit from $182,430 to $191,920.

Blind/Disabled taxpayers whose taxable income does not exceed $17,000 are entitled to a property tax deduction of $12,480 on their real or personal property. This bill changes the basis for the income limitation from taxable income to Indiana adjusted gross income for Indiana residents only (the basis remains as taxable income for non-Indiana residents). Additionally, for taxes payable in CY 2009, the income limit is increased to $17,884.

This analysis assumes that all taxpayers who qualify for any of these deductions under current law are currently taking them; it also assumes that all the potentially additional taxpayers covered under this proposal would claim any applicable deductions.

Aged deduction: Estimates derived from income tax data and parcel level data indicate that this proposal will enable an additional 9,000 senior citizens and surviving spouses to claim this deduction in CY 2009. They would pay approximately $2.1 M less in taxes for an average net tax reduction of $235 per taxpayer. At a maximum of $12,480 per qualifying senior citizen household, this deduction will potentially reduce the tax base by $111 M. This reduction in the tax base will cause a shift of property tax burden to all taxpayers in the form of an increase in the statewide average gross tax rate of about $0.0009 in CY 2009. This translates to a property tax shift of $2.3 M to all other classes of property. This number exceeds the $2.1 M in tax savings to senior citizen taxpayers because the tax base for all other classes of property includes some property that does not qualify for homestead credits or the regular 20% PTRC. Senior citizen households, on the other hand, comprise only homesteads which qualify for these credits.

Blind/Disabled: Using the most current income tax and parcel level data, it is estimated that this proposal will enable an additional 7,250 blind/disabled taxpayers to claim this deduction. They would pay approximately $1.7 M less in taxes in CY 2009 for an average net tax reduction of $235 per taxpayer. At a maximum of $12,480 per qualifying disabled veteran, this deduction will potentially reduce the tax base by $91 M AV. This reduction in the tax base will cause a shift of property tax burden to all taxpayers in the form of an increase in the statewide average gross tax rate of about $0.0008 in CY 2009. This translates to a property tax shift of $1.9 M to all other classes of property. This number exceeds the $1.7 M in tax savings to blind/disabled taxpayers because the tax base for all other classes of property includes some property that does not qualify for homestead credits or the regular 20% PTRC. Disabled veteran households, on the other hand, comprise primarily homesteads which qualify for these credits.

Under this proposal the total net tax reduction to those additional taxpayers receiving the deductions would be approximately $3.8 M; the total reduction in the tax base would be approximately $201 M. This reduction in the tax base will cause a shift of property tax burden to all taxpayers in the form of an increase in the statewide average gross tax rate of about $0.0017 in CY 2009. This translates to a property tax shift of $4.2 M to all other classes of property.

This analysis assumes that all taxpayers who would qualify for the deductions under this bill will actually claim it. If, however, these conditions change then the fiscal impact might be different from the results presented here. For example, if some individuals who qualified any of the deductions under current law but did not claim them, decide to do so under this proposal then the impact on State and Local revenues and expenditures will be correspondingly larger. On the other hand, if some applicable taxpayers under this proposal do not apply for the deduction, then this would have a smaller impact on State and Local revenues and expenditures.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance; State Fair Board; DNR Division of Forestry.

Local Agencies Affected: County Auditors.

Information Sources: OFMA Property Tax Database, OFMA Income Tax Database, Bureau of Economic Analysis.

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